

BDTI's Training Activities, and Related Policy and Public Opinion Changes In Japan

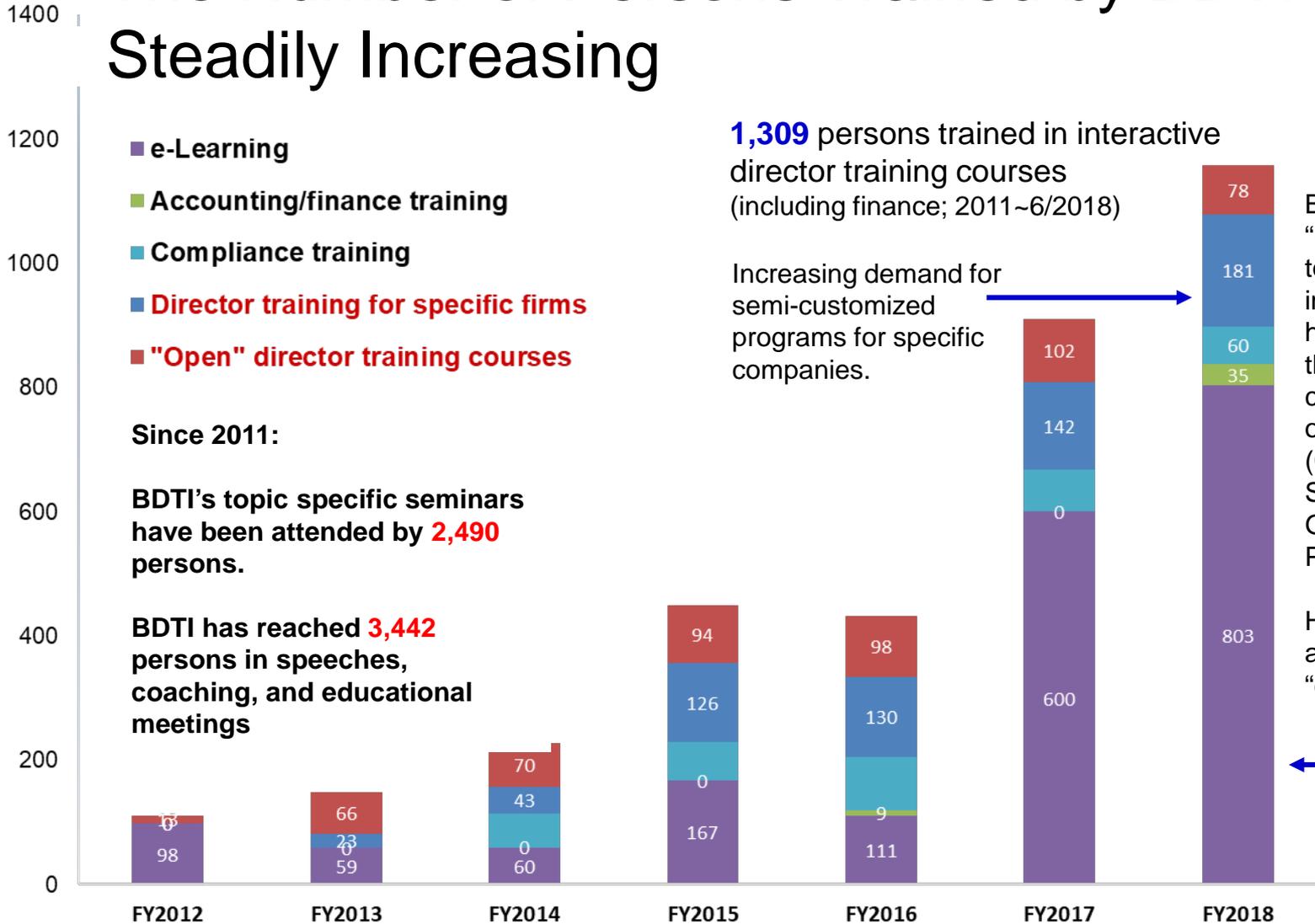
Nicholas Benes
Representative Director
The Board Director Training Institute of Japan
nbenes@bdti.or.jp

The logo for BDTI, consisting of the letters "BDTI" in a white, serif font, centered within a solid blue square.

BDTI

公益社団法人
会社役員育成機構

The Number of Persons Trained by BDTI is Steadily Increasing



1,309 persons trained in interactive director training courses (including finance; 2011~6/2018)

Increasing demand for semi-customized programs for specific companies.

BDTI now provides "unlimited e-Learning" to large companies. It is impossible to estimate how many persons as these companies have completed all or some of the four modules (Company Law, Securities Law, Governance Basics, Practical Governance).

Hence, these numbers are conservative "educated guesses".

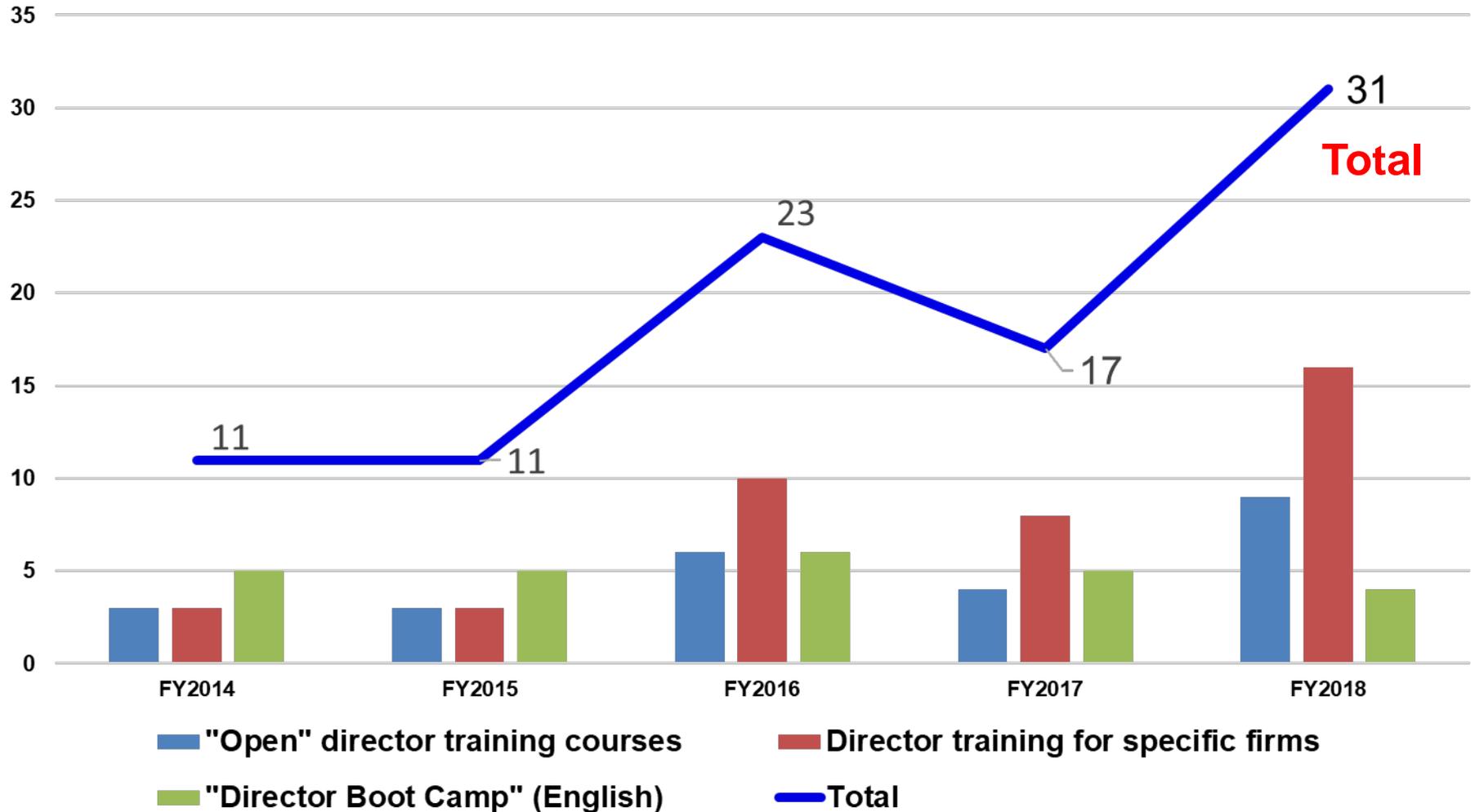
Since 2011:

BDTI's topic specific seminars have been attended by **2,490** persons.

BDTI has reached **3,442** persons in speeches, coaching, and educational meetings

BDTI's formation and the CG code have stimulated growth in the market for "director training", by other providers as well. However, the quality and depth of programs by some new providers are questionable.

Frequency of BDTI's Small-Numbers Interactive Directorship Programs is Increasing

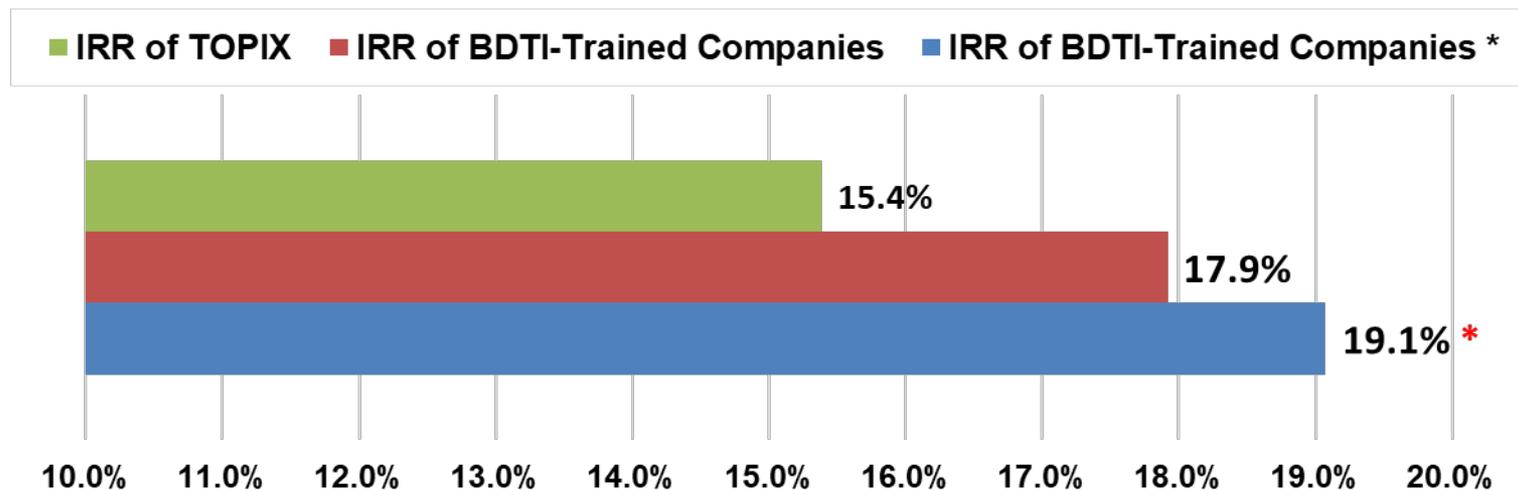


Good Performers Are More Serious About Director Training

(Rough analysis; any causative relationship impossible to know)

Price Performance of Firms that Received Customized Director Training from BDTI

IRR of share price, FY2012- FY2018



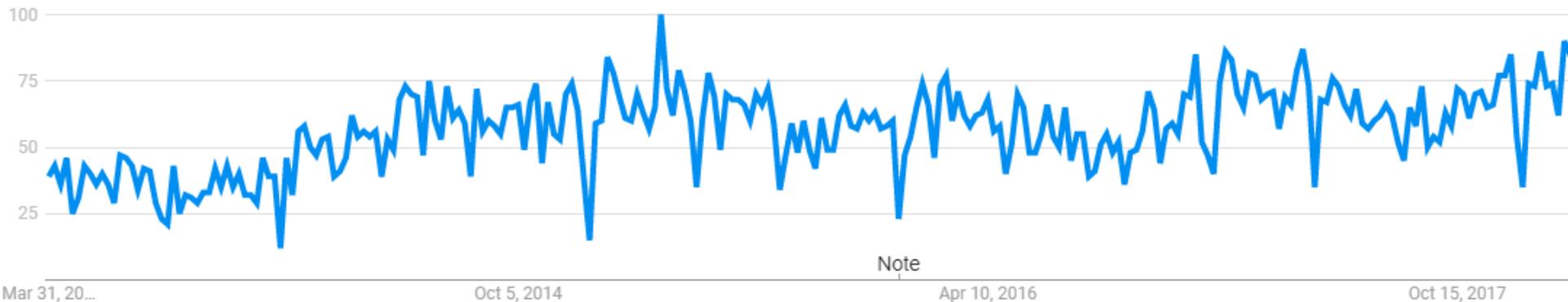
Average annual IRR. Group includes companies that received customized director training from BDTI during the period. Depending on the company, training was given several times, and/or with separate groups (e.g., the case where BDTI gave training to the boards of major subsidiaries of large corporate groups.)

* Excluding two companies that completed IPOs during the period, and one company where the Japanese government is a large shareholder.

Regulatory Momentum Continued Over the Past 18 Months *(Major examples. Some resulted from personal advocacy.)*

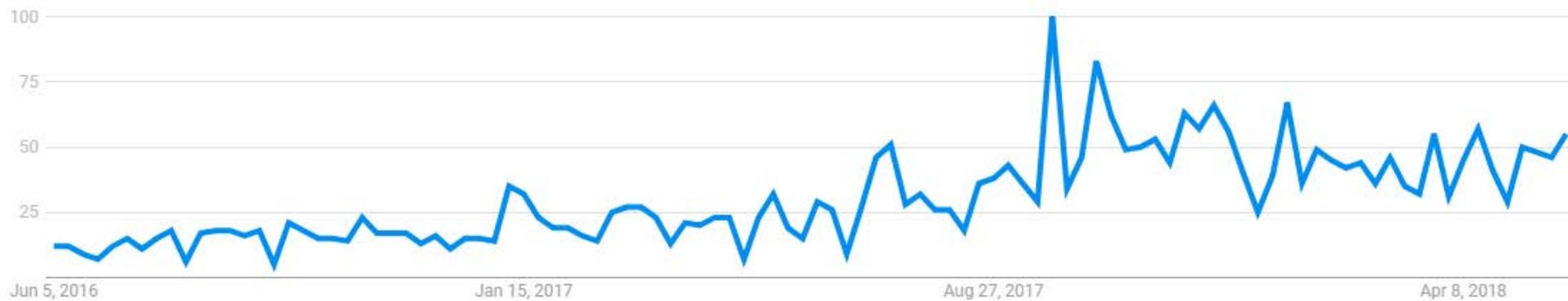
- [Revision of the Stewardship Code](#), generally requiring disclosure of voting
- [MHLW policy](#) to encourage corporate pension funds to sign Stewardship Code (also in draft revisions to CG Code)
- GPIF now refers directly to “corporate governance codes” in its [proxy voting and stewardship policies](#)
- [Ito Review 2.0](#); high-quality [survey on CG practices by METI](#)
- TSE now [asks companies to disclose](#) details of any ex-CEOs who hold “advisory” positions
- [Revised Corporate Governance Code](#) released. New CGC requires either nom/com committee or >50% INEDs
- Draft “[Guidelines for Investor and Company Engagement](#)”
- Draft Outline of [amendments to Company Law](#)

“Productivity” (生産性): Search Interest Over Time - Japan, past five years (Google Trends)



The Japanese government and public have realized that productivity enhancement, via corporate earnings increases and capital efficiency, are essential to Japan's future economic growth and vitality. See: [“How Japan's Corporate Governance Code Was Born”](#).

“ESG”: Search Interest Over Time - Japan, past two years (Google Trends)



Propelled by the Stewardship Code, the Corporate Governance Code, [and the GPIF](#), ESG has gone mainstream in Japan. When BDTI was started in 2009, few people taking courses had ever heard of ESG when we taught about it. Now, few have not heard of it.

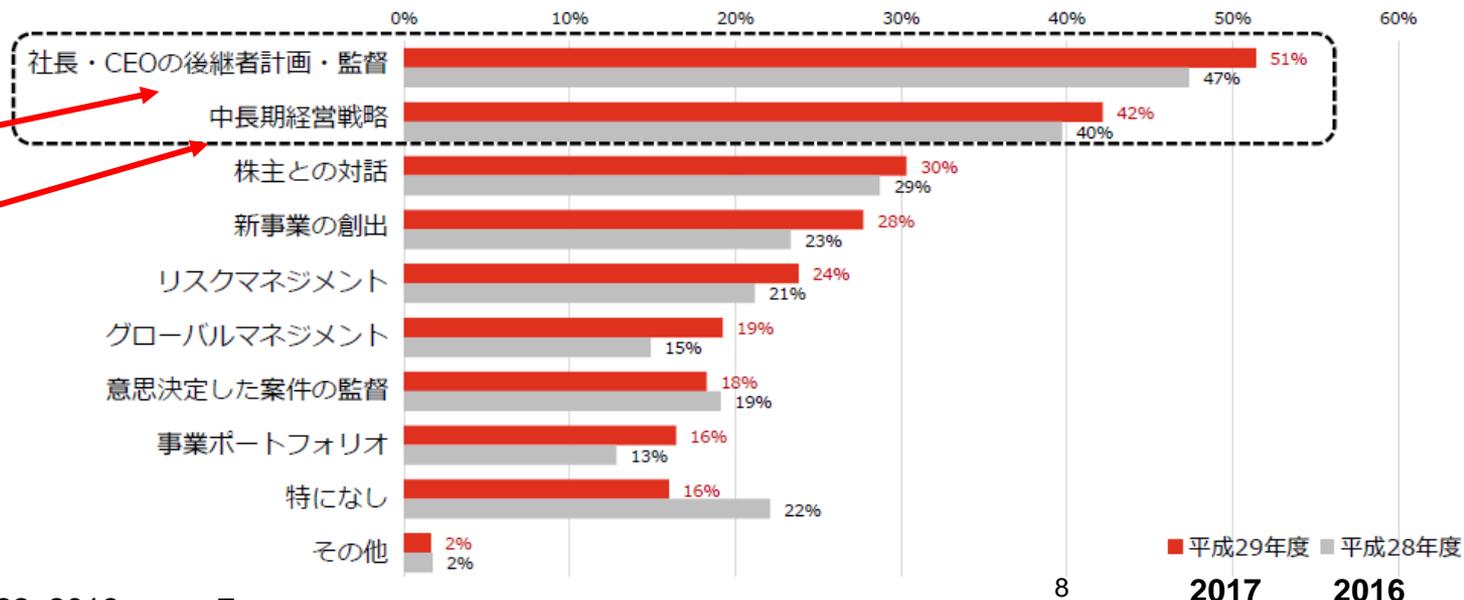
Internal Awareness is on the Rise: “Not Enough Board Discussion re Monitoring CEO, Succession Planning, Strategy”

- This is the internal view(!), based on METI’s recent survey. (Most respondents were the **internal teams handling board affairs, the Japanese equivalent of a corporate secretary**)

Survey Question: “Tell us about the topics/areas about which you think there is not enough debate.”

Monitoring of the CEO, and succession planning

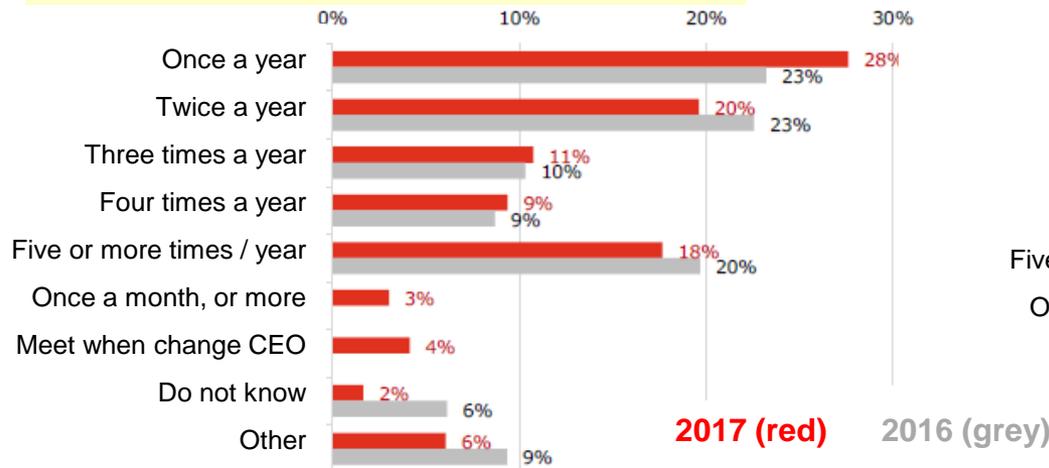
Medium/long-term strategy



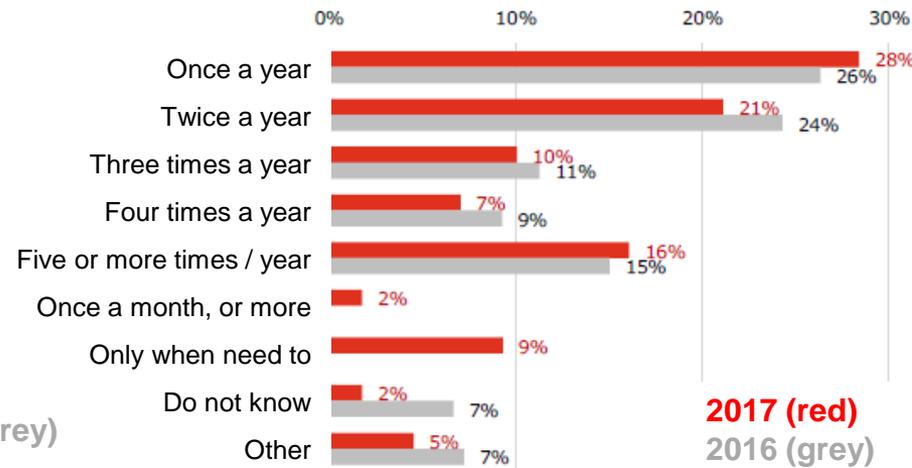
Many Nominations, Compensation Committees Are Mainly “Cosmetic”...BUT, Already their Existence Correlates with Firm Performance. (And the new CGC requires either at least one of them, or a majority of INEDs on the board)

Survey Question: “How frequently does your nominations or compensation committee meet?” (including legally “voluntary” committees)

Nominations committee



Compensation committee



- More than half of committees only meet once or twice a year,... or less
- For about 55% of committees, a single meeting is usually “an hour or less” in length
- For 90% of committees, usual meeting time is less than two hours long
- **Can this possibly be enough time to much else than “rubberstamp”?**
- **Even so, positive correlation with ROA increase, at a statistically significant level**

METI* Has Recognized The Importance of Director Training

“In order to instill and reform awareness at all levels of corporations, it is **important to implement appropriate study and training about corporate governance by directors, senior executives, and managers**, under the direction of the CEO and the senior managers responsible for corporate governance.”

METI CGS Study Group report, 3/10/2017

* In addition to the FSA, which as part of the CGC, requires companies to disclose their policy about director training.

A Survey by The Association of Corporate Legal Executives' Revealed Huge Gaps in Board Training

“The wording of Principle 4-14 of the CG Code [about director training] is expecting directors to fulfill **a supervisory role as monitors**. However, in the past, director training at Japanese listed companies did not emphasize increasing skills for this role... **It is necessary to add this aspect, especially with regard to monitoring by outside directors.... In our survey, at only 53.9% of firms did executive directors receive training, and at only 28.9% of firms did outside directors receive training**. We cannot escape the impression that implementation of training is low... It seems rare that directors have enough knowledge when first appointed.... **At 50% of companies, the length of training was three hours or less.**”

Of the firms that gave training, relatively small numbers of firms covered these topics:

Internal control: only **42.4%** of respondent firms covered this topic

Compliance-related: only **16.2%** “ “

Risk/Crisis management: only **25.3%** “ “

Corporate Governance Code: only **13.1%** “ “

Finance and accounting: only **21.2%** “ “

Corporate value and valuation: only **7.1%** “ “

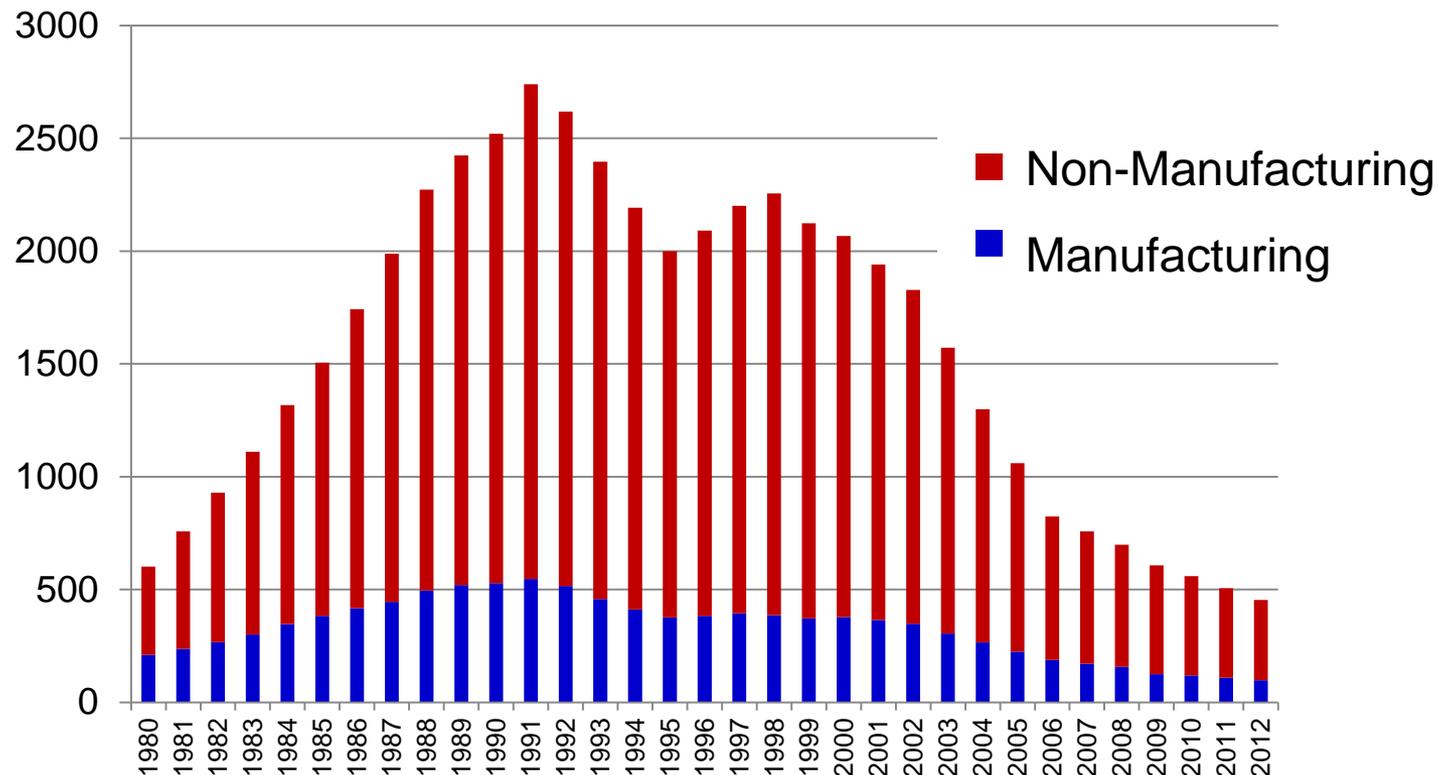
Report on Survey, February 2016

But Training Budgets Are Easy to Cut. Investor Voices Are Needed. Director Training is Not Costly, and it is Cost-Effective

Investment in Human Capital (of all types)

企業固有の人材形成の推移

1 Bln Yen



Source: Professor Tsutomu Miyagawa of Gakushuin University, "Abenomics and Productivity", 2016「アベノミクスと生産性向上」(学習院大学経済学部・教授宮川努). **Admittedly, a large portion of the decline is due to offshoring and the increase in temporary or contract labor.**



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公益社団法人会社役員育成機構